



MEASURING THE SOCIAL IMPACT AND ITS IMPLICATIONS IN BUSINESS ADMINISTRATION

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ABSTRACT

In recent years, management researchers have paid increasing attention to investigating how companies can develop profitable operations whilst simultaneously considering social and environmental concerns. Nonetheless, it is crucial to question how companies can determine whether their solo or collaborative efforts positively impact their target populations. Several issues must be addressed to assess the actual impacts, including causality, cost, and comparability. Cost is significant because most assessment techniques require data to be collected and analysed. Several alternative ways of evaluating such impacts will be discussed in the present work. Moreover, recommendations for future research into the topic will be made. The fundamental purpose of this work is to enhance understanding of how to measure environmental and social impacts and how measurement practices can help companies achieve economic and social goals.

1. Introduction

In recent years, management researchers have focused on investigating the different ways in which companies can simultaneously achieve social and financial objectives [1-4]. Several concepts have been developed as a result of a common desire to establish profitable operations whilst also taking into account social and environmental concerns [5]. These concepts include corporate social responsibility practices, the bottom of the pyramid strategies, socially-responsible investing, and the pursuit of shared value more generally [6]. Such efforts are designed to meet policymaker and public manager's objectives to ensure that state or privately-funded operations have positive impacts on the wider population [7-9]. As for-profit companies and non-profit organisations learn and uncover more opportunities for mutual collaboration, private and public interests have become more and more interdependent [10-12].

This gives rise to a natural question: how can the actors involved in this process determine whether their independent or collaborative efforts are having a positive effect on their target populations? Recently, there have been growing concerns regarding how the positive impacts of company operations on social and environmental factors can be effectively and accurately measured [13, 14]. Measuring impact is a challenging, yet very important task. Firstly, causality must be considered [15]. Policymakers and company managers usually want to know if any improvements in outcomes were a direct result of efforts made by the company or by other confounding factors [16, 17]. Some scholars argue that evaluating impact requires counterfactual analysis to be performed. In other words, it is crucial to understand what would have happened to the target population if the project or intervention had not been carried out [18, 19]. Secondly, comparability must be taken into account [20]. In conventional strategy research, standard performance indicators such as stock market value and return-on-assets (ROA) are used to measure a company's economic performance. These indicators are usually compared to a common norm (i.e., average industry performance) [21-23]. However, understanding how to contrast the outcomes of projects that are carried out in unique fields (i.e., education or health) is difficult. Last, but by no means least, the issue of cost must be considered. When evaluating impact, a vast amount of data needs to be collected and analysed. This is similar to scientific research. It can, however, be difficult for entrepreneurs and financially-limited governments to fund such projects.

The present work thus aims to explore how measuring social impacts can stimulate research into the techniques, methods, challenges and limitations associated with addressing socio-environmental needs. In the following section, the development of social impact measurement will be discussed, after which the researcher will discuss the opportunities created by this new trend in business administration research.

2. Measuring Impact

As previously stated, several issues (i.e., causality, cost and comparability) must be considered when measuring impacts. It is also essential to understand how different measurement strategies overcome trade-offs in these dimensions. In general, the approaches used to evaluate impact can be separated into two categories, namely, standardised and project-specific [24, 25]. Many standardised tools have been developed for measuring impact, including IRIS (Impact Reporting and Investment Standards), GIIRS (Global Impact Investing Report System) and the B-Lab Certification. GIIRS employs a “dictionary” of impact variables as outlined by IRIS, enabling investors and entrepreneurs to self-report their performance in various areas (governance, workers, community, environment, business model focus).

Similarly, the B-Lab Certification tool is also developed based on the guidelines proposed by IRIS/GIIRS. It enables businesses to receive an external certification highlighting the social orientation of their business model. In recent years, impact investors and entrepreneurs have been increasingly applying the standardised indicators developed by the United Nations’ Social Development Goals. Standardisation enables individual evaluations of impact to be compared. Moreover, they tend to be self-reported and open, which ultimately reduces the costs associated with the impact management process. On the other hand, these standardised tools fail to consider causality. In other words, they do not think whether initiatives implemented by the company directly caused any changes in its target populations.

To bridge this gap, project-specific approaches to measuring impact have been developed, which focus on variables that are more closely associated with firm-level interventions. Additionally, several different techniques can be used to establish the effects of a specific project or intervention [26]. Some measurement strategies have been developed based on the so-called principle of additionality, the key purpose of which is to address and determine causation [27, 28]. In such cases, investors analyse the impact of a project based on its actual performance and its counterfactual performance (in other words, what would have happened if the company had not implemented the relevant measures). Counterfactual situations can be constructed in many ways using a control group of individuals who have not been exposed to the intervention at hand [29, 30]. One possible strategy to achieve this would be to compare the outcomes of those exposed to the intervention with those of a matched group of individuals with similar observable features [31]. On the other hand, a more rigorous method that can be used to assess causality is a randomised controlled trial (RCT). When using this method, the communities or individuals exposed to the benefits of the investment are randomly defined, meaning that unobservable features impacting the outcomes of the project can be controlled [32, 33].

Project-specific approaches that focus on verifying additionality allow for more precise and accurate assessments of causal effects. However, it is essential to consider that such methods are more expensive than standardised tools. Greater technical skills and expertise are required to carry out the assessment and more intricate data analysis methods involving complex econometrics are needed. In some cases, companies will have to collect new data to analyse. Moreover, as most companies select the persons or communities they wish to study, RCT implementation can be much more difficult. Contrastingly, project-specific approaches tend to implement more customised measurements, making the findings less comparable. Nonetheless, comparability can be enhanced by identifying and employing a standard metric to evaluate outcomes for various projects (i.e., calculating the economic return of social interventions [34, 35]).

3. Research Opportunities

Given the variety of techniques available, it is logical to question which factors impact the selection of impact measurement tools. For instance, financially constrained entrepreneurs may find it harder to implement project-specific measurements with customised measurement strategies and to collect specialised data. By contrast, some impact-oriented investor may ask their supported organisations to implement more robust approaches to assess the causality of the intervention. Researchers may thus wish to consider examining the differences in strategies adopted by entrepreneurs and investors and their perspectives. This can help them understand why different methodologies are used to assess impact.

If impact assessment approaches improve, it may become a new and effective performance dimension in management, in addition to financial, market, and productivity-oriented indicators. Existing studies have explored potential ways to reconcile social and economic goals [36, 37]. However, more project-specific measurements of impact are still needed. In strategic management, competitive advantage is typically defined as a company’s long-term success compared to the industry average [38]. As more data about project-specific outcomes becomes available, researchers may overcome the issues of comparability associated with specific measurement indicators by comparing how certain firm-specific results with those produced by other companies in the same industry. This is similar to how financial analysts compare the returns of specific companies with those of other companies operating in the same industry.

More accurate impact measurements can also be beneficial in rewarding investors and managers for their improved social outcomes [39, 40]. A key example to mention here is the case of the so-called social impact bonds (SIBs), a contractual mechanism that enables private investors to fund social projects on a pay-for-impact basis (in other words, the government only reimburses investors if specific impact targets of met) [41]. The first such initiative was implemented in the prisons in the United Kingdom to lower recidivism. The approach used in this case was project-specific and developed based on the verification of additionality. Comparisons were made between recidivism in prison resulting directly from the

investment and a matched control group consisting of prisoners from other localities who were not exposed to the intervention. The investors were only paid if they achieved specified impact targets, namely, if recidivism in the focal prison was substantially reduced compared to the control group. This leaves significant room to investigate how different measurements can be employed in pay-for-impact contracts. For example, additionality-based assessments are beneficial in that they can provide more accurate estimates of improvements that will result from new investments. Nonetheless, they make investors' tasks more challenging and complex, especially if comparison groups are not adequately designed.

Researchers could also investigate the extent to which resources, organisational forms and management practices impact how they measure impact. For example, the analysis of heterogeneous management practices is garnering more and more attention nowadays, with researchers focusing on how they affect company profitability and productivity [42-44]. Impact measurement is a crucial practice. However, the exact nature of impact measurement strategies varies widely between companies and industries. Different types of procedures can also impact a company's capacity to generate impact. Moreover, company-specific resource allocations may affect implementing these practices [42, 45, 46]. In the future, researchers should explore the practice and resource-based impact assessment methods used by businesses and their effectiveness.

Although these questions do not, by any means, cover all potential avenues for future research, they do highlight several themes and issues that could be addressed in future work. If more studies are conducted in this field, managers will be better informed about the advantages and disadvantages of different strategies for measuring impact. Moreover, this will also enable theories to be developed about how companies can generate economic and social value simultaneously.

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